

**STATE OF INDIANA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS**

ORDER OF INTEGRATION

Re: Application of El Paso E&P Company, LP) Case No.: DOG-7-2010
For the integration of oil and gas interests owned by)
Consolidated Rail Corporation in Section 30, Township 5 North,)
Range 6 West, Daviess County, Indiana)

As provided in Indiana Code 14-37-3-16, an informal hearing was held in this matter on Tuesday, November 30, 2010, beginning at 11:00 AM before the Indiana Department of Natural Resources (IDNR), Division of Oil and Gas (Division), at the Indianapolis Office of the Division located at 402 West Washington Street, Room W293, in Indianapolis, IN 46204. The purpose of the informal hearing was to consider the Petition for Integration of Interests (Application) for the above drilling unit filed by El Paso E&P Company, LP, hereinafter referred to as "Applicant".

Having reviewed the entire record in this matter, and being duly advised, the Director of the Division (Director) makes the following Findings of Fact, Conclusions of Law and Order of Integration:

FINDINGS OF FACT

1. Applicant is a corporation whose principal place of business is 1001 Louisiana Street, Houston, TX 77002. Applicant is authorized to transact business in the State of Indiana and its registered agent is Karen J. Anspaugh, 20 Village Walk Court, Zionsville, IN 46077.
2. Applicant intends to seek a permit for a horizontal shale gas well to establish the RAGSDALE 1-30H DRILLING UNIT containing 640.0 acres (more or less) comprised of all of Section 30, Township 5 North, Range 6 West.
3. Consolidated Rail Corporation, Room 1500, Six Penn Center Plaza, Philadelphia, PA 19103, is believed to own properties identified as Tract 001-R, Tract 002-R, and Tract 005-R in Applicant's petition for integration of interests. Said properties are located within the proposed RAGSDALE 1-30H DRILLING UNIT and consist of 6.93, 1.58, and 1.07 acres respectively, more or less.
4. Based upon information provided by the Applicant, oil and gas leases have been executed and acknowledged or ratified on the remaining 630.4136 acres within the proposed drilling unit.
5. Despite due diligence and good faith efforts, the Applicant was not able to obtain consent for the proposed lease of oil and gas rights from Consolidated Rail Corporation. Exhibit E summarizes the extent of communications with Consolidated Rail Corporation.
6. IC 14-37-9-1(b) requires that, where owners of separate tracts within an established drilling unit do not agree to integrate their interests, the IDNR shall require the owners to integrate their interests in order to prevent waste or the drilling of unnecessary wells.
7. The Petition filed in this matter by the Applicant seeks, pursuant to IC 14-37-9, the issuance of an integration order whereby the interests of all owners of separate tracts within an established drilling unit are integrated and the combined tracts developed as a consolidated production unit.
8. The Applicant attached the following documents to its Petition:

Exhibit A-1	Legal Description of Separately Owned Interest
Exhibit A-2	Legal Description of Leased Parcels
Exhibit B-1	Map of the Pooled Unit

Exhibit B-2	Depiction of Proposed Well Bore
Exhibit C	Oil and Gas Lease Form Utilized in Project Area
Exhibit D	Division of Gas Ownership Interest Spreadsheet
Exhibit E	Contact Report Summarizing Lease Attempts

9. IC 14-37-9-2 requires an integration order to be based upon reasonable terms that give the owner of each tract an equitable share of the oil and natural gas in the unit.
10. On November 8, 2010, notice of the date, time, and place of the informal hearing to be held in Indianapolis, IN on November 30, 2010, was mailed by first class mail to Consolidated Rail Corporation informing them of their right to attend the informal hearing, or to submit written comments or objections to the Division by mail, fax, or email.
11. The following persons were present at the informal hearing held in Indianapolis on November 30, 2010:

<u>Person</u>	<u>Representing</u>
No persons were in attendance at the informal hearing	Karen Anspaugh, representing Applicant contacted the Division of Oil and Gas in advance of the informal hearing to indicate that she did not plan to attend since she did not expect that any representative from Consolidated Rail Corporation would be attending.

12. Based upon a review of all relevant information, Consolidated Rail Corporation and Applicant have been unable to mutually agree on terms for the integration of their interests and therefore the Petition should be granted in order to allow the Applicant to proceed with the development of the aforementioned drilling unit in such a manner that affords the owners of all parcels within the RAGSDALE 1-30H DRILLING UNIT an opportunity to receive a just and equitable share of the production of oil, natural gas, or other hydrocarbons from said unit.


CONCLUSIONS OF LAW AND ORDER OF INTEGRATION

1. IC 14-37-9 and any rules promulgated thereunder apply and are pertinent to the subject matter of the Application filed herein.
2. There has been full compliance with all notice requirements provided by law, and all interested parties have been afforded an opportunity to be heard.
3. The IDNR and the Division have jurisdiction to hear this matter and authority, as delegated by the Natural Resources Commission, to order the integration of interests in accordance with IC 14-37-9-1(b)
4. The Petition, herein referenced, contains the elements required by law.
5. All leaseholds and parcels comprising the RAGSDALE 1-30H DRILLING UNIT located in Section 30, Township 5 North, Range 6 West in Daviess County, Indiana are hereby ordered to be integrated as a single drilling unit. It is reasonable, fair, and equitable, as required by IC 14-37-9-2, that such division of interest be accomplished as depicted in Exhibit "D" of Applicants Petition so that unit operations may be conducted as if the unit area had been included in single leases executed by all owners of oil and gas interests within said unit.
6. Unless ownership of the oil and gas on the subject parcels is later found to belong to other parties, Consolidated Rail Corporation shall be entitled to receive a 1/8th royalty share of all oil, natural gas, and other hydrocarbons produced calculated at the rate specified in Exhibit D for all production from the RAGSDALE 1-30H DRILLING UNIT.
7. As provided in IC 14-37-9-2, the portion of the production allocated to the owner of any tract within

the RAGSDALE 1-30H DRILLING UNIT shall be considered as if produced from a well drilled on that tract.

8. Notwithstanding any contrary provisions contained in the attachments to the Petition, nothing in this Order of Integration shall be construed as granting the Applicant any legal right of entry onto, over, or across the surface of any portion of the Consolidated Rail Corporation property.
9. This order is a final administrative action of the IDNR and, as such, is subject to administrative review under IC 4-21.5-3-7 and may be placed of record by the Applicant in the appropriate public record of Daviess County, Indiana.

December 14, 2010
Dated



Herschel L. McDivitt, Director
Division of Oil and Gas

**DIVISION OF OIL AND GAS
DEPARTMENT OF NATURAL RESOURCES**

**NOTICE OF ORDER OF INTEGRATION
NOTICE OF RIGHT TO APPEAL
CERTIFICATE OF MAILING**

You are hereby notified that on the date indicated below, the Indiana Department of Natural Resources, through the Director of the Division of Oil and Gas, issued an Order of Integration with respect to certain oil and gas drilling interests under Cause No. DOG-7-2010. The Order of Integration is based on an Application for Integration Order previously filed by the Applicant, El Paso E&P Company, LP, and on an Informal Hearing held in this matter on November 30, 2010, in Indianapolis, Indiana to consider the request for integration. A copy of the Order of Integration issued on the date indicated below is enclosed.

The terms of the enclosed Order of Integration are subject to appeal and review under IC 4-21.5-3-7 in a hearing before an Administrative Law Judge. In order to qualify for administrative review, a person must petition for review in writing stating facts that demonstrate the petitioner is:

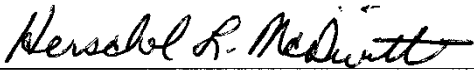
- (A) a person to whom the order is specifically directed;
- (B) aggrieved or adversely affected by the order; or
- (C) entitled to review under any law.

In order to be timely, any petition for administrative review must be filed with the Division of Hearings, Natural Resources Commission, Indiana Government Center South, 402 W. Washington St., Rm. W272, Indianapolis, IN 46204 within eighteen (18) days after the mailing date of this notice. If no petition for administrative review is filed within the stated time limit, all terms and conditions contained in the enclosed Order of Integration will become final and binding.

I further certify that a copy of the referenced Order of Integration was mailed on the date indicated below to the Applicant and to the following persons:

- Consolidated Rail Corporation, Room 1500, Six Penn Center Plaza, Philadelphia, PA 19103
- Karen Ansbaugh, P.O. Box 4212, Traverse City, MI 49685

December 14, 2010
Dated



Herschel L. McDivitt, Director
Division of Oil and Gas